

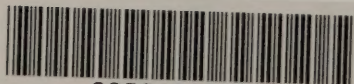


THE SOLIDARITY ALTERNATIVE

A NORWEGIAN STRATEGY FOR GROWTH, COMPETITIVENESS AND EMPLOYMENT

ROYAL NORWEGIAN MINISTRY OF FINANCE

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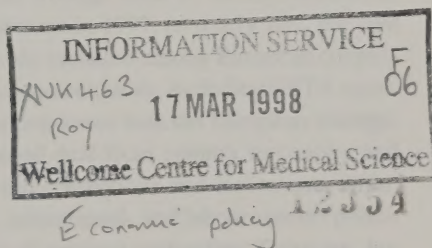


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Royal Norwegian Ministry of Finance



Oslo, Norway 1997



FOREWORD

Despite economic recovery, which has been uneven among industrialized economies, the level of unemployment is forecast at some 35.7 million persons in 1997 for the OECD area as a whole. In the period 1984-1994 the average level of unemployment was 29.2 million persons.

In Europe (OECD Europe) the average level of unemployment has reached a level of 23 million persons in 1997, or nearly 10½ per cent of the labour force. There is a wide variation among European countries. In a number of smaller European countries, including EFTA countries, unemployment rates are much lower than the European average.

The problem thus varies a good deal from country to country and from region to region as economic situations and institutions differ. Areas such as wage formation, educational- and labour market policies are mainly the responsibility of national authorities. There are, however, important international dimensions which in my opinion requires strengthened international co-operation both globally and regionally. Pronounced international economic interlinkages, acknowledged by all, requires such co-operation. Furthermore, learning from each others successes and failures so as to develop best practices is

important. An international programme for jobs - with country specific policy measures which vary from country to country as presented by the OECD in 1997- could both enhance the total results of individual policies and increase the overall political commitment to initiate measures in order to reduce unemployment significantly over the medium and longer term.

As an input to a continued political dialogue and European and global co-operation to boost employment with continued low inflation, this note seeks to identify - drawing on Norwegian experiences and policies - important elements as we see them in a strategy for sustainable growth, competitiveness and employment.

Main elements in the Norwegian strategy - the Solidarity alternative - are:

- Income Policy. Co-operation on price- and wage formation between the social partners and the government in a medium term perspective to curb inflation and secure low nominal wage developments
- Macro Policy. As income policies contribute to low inflation, room for manoeuvre in macro policies is enhanced. Fiscal policies stimulate demand when activity in the private sector is low, and tight fiscal policies are pursued when activity is buoyant. Monetary policies are mainly used to secure stable exchange rates.
- Labour Market - and Educational Policies. Active labour market policies aim at easing structural adjustments in the labour market, reduce cost pressures, but also to secure that the unemployed maintain contact with the labour market. Increased investments in education enhance the competence and adaptability of the labour force over time

More details are given in the main text.

In the Norwegian context, the strategy has produced good results in the 1990s. Public employment increased as fiscal policies were expansionary in the early 1990s, but private employment has grown rapidly

in recent years. Furthermore, tight fiscal policies have been pursued over the past four years, so that public expenditures as a share of GDP has been reduced from 52 per cent in 1992 to below 45 per cent in 1997. An thirdly, active labour market and education policies have contributed to flexible labour supply conditions so that employment has increased by some 190 000 persons from 1993 to 1997 accompanied by strong growth in labour supply, thus contributing to reducing unemployment to some 4 per cent of the labour force this year combined with low inflation. A flexible supply side is important to assure a soft landing of the Norwegian economy.

Participation in international work on employment matters is a cooperative effort between the Prime Minister's Office and the Ministries of Foreign Affairs, Education and Research, Industry and Trade, Local Government and Labour, Transportation and Finance. On the administrative level, this work is coordinated by Deputy Secretary General Thorvald Moe.

There are no quick fixes or easy solutions to the challenges of employment and unemployment which have become so large in many industrial countries, notably in Europe. Strengthened co-operation and consensus building are urgently needed within countries and between countries and groups of countries. Co-operation and consensus building between the authorities and the social partners are also important as appropriate. Norwegian experience indicates that equity and emphasis on job security are important elements in a successful wage - and incomes policy contributing to low inflation and satisfactory levels of cost competitiveness within an overall strategy of growth and high employment.

Jens Stoltenberg

Norwegian Minister of Finance

August 1997

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I INTRODUCTION

1. In the following sections, Norwegian policies and views - as an input to the ongoing process of international co-operation and development of best practices in employment policies - are presented. In this context, Norway is pleased that regular ministerial meetings between ECOFIN and Ministers of Finance and Economy from EFTA countries will continue on a regular basis in October 1997. Reference is also made to the follow up of the OECDs Jobs Study, notably the ministerial meeting of labour ministers in the OECD in November.

In section II the focus is on the need for overall medium term employment strategies covering both the demand- and supply side of the economy. Thereafter, main elements in the Norwegian medium term strategy, focusing on income policies and cost competitiveness (section III), active and effective labour market policies (section IV), raising the quality of human capital (section V), improving conditions for job creation in the private sector (section VI), effective expenditure policies (section VII), and tax structures that would improve both the functioning of the economy and the environment consistent with objectives of high employment (section VIII) are set forth.

2. A number of concrete, cooperative efforts or programs between the EU and Norway, inter alia through the EEA agreement, are enumerated throughout the text and in Annex I.

As a member of the European Economic Area (EEA), Norway is closely associated with a number of developments within EU. The agreement, which came into effect 1. January 1994, emphasizes - inter alia - the need to: «ensure economic and social progress and to promote conditions for full employment, an improved standard of living and improved working conditions within the European Economic Area».

II AN OVERALL STRATEGY FOR GROWTH, COMPETITIVENESS AND EMPLOYMENT: The Case of Norway

3. A basic assumption of the Norwegian strategy for growth, competitiveness and high employment, as developed inter alia by the work of the Norwegian Employment Commission¹⁾, assumes that both macro - and structural policies are important for achieving a satisfactory development of the real economy over time. The so called «two handed» approach. It is assumed, furthermore, that strategies for growth of output and employment must satisfy conditions for low nominal price inflation and sound public finances. It is noted that growth of output and high employment is conducive to strengthen public finances.
4. Macroeconomic policies and an update of medium term economic prospects in Norway are set forth in The Revised National Budget for 1997 (Parliamentary Report No. 2, 1996/97). After a five year period (1989-1993) of using fiscal policies actively to counteract weak private demand and rising unemployment, fiscal policies have since 1994 been restrictive as private demand, production and employment have been rising rapidly. GDP growth is estimated at respectively 3.9 and 3.5 per cent per year in 1997 and 1998, and employment measured in persons is forecast to increase by 2 and 1 per cent respectively this year and next. Price inflation is estimated to be 2½ per cent in 1997. The public budget surplus, using the definition in the Maastricht Treaty, is estimated to be 6.8 per cent of GDP in 1997.

¹⁾ The Employment Commission consisted of representatives of all the political parties in the Parliament, the two major social partners (LO and NHO), and professional economists from the ministries and Statistics Norway. See: «A National Strategy for Increased Employment in the 1990s». Norwegian Official Commission (NOU 1992:26).

More details on fiscal and monetary policies are given in the Revised National Budget 1997. Updates on macroeconomic policies and prospects for 1998 and coming years, will be presented in the National Budget 1998 to the Parliament in October this year.

5. The Norwegian medium term employment strategy assumes, furthermore, that levels of employment and unemployment depend importantly on institutional and structural conditions such as:

- How wages are determined.
- How young people are educated and trained.
- How unemployed persons are treated.

Since macroeconomic conditions in Norway seem satisfactory, and since actual, average unemployment is estimated at 4 per cent of the labour force in 1997, a key to maintaining low unemployment combined with low inflation during the rest of this decade will be policies in these above mentioned fields. An overview of important institutional and structural elements are given in Table 1. It is felt that appropriate policies in these fields will strengthen the supply side and make the economy more flexible to needed structural adjustments. Such policies will also - if effective - facilitate implementation of appropriate macro policies, and thus contribute to sustain present developments at low levels of unemployment and inflation in several ways.

Table 1. Structural and Institutional Elements in a Solidarity Alternative for Growth, Competitiveness and Employment

1. The system of wage formation. Measures to provide for good overall cost competitiveness of the economy	<p>1.1 Maintaining/improving the wage formation system</p> <p>1.2 Consensus (incomes) policy within the two-tier system contributing to maintaining good cost competitiveness and low inflation*</p>
2. Active policies towards the labour market. Measures for the unemployed	<p>2.1 Effective labour market policies</p> <p>2.1.1 Employment service (Placement service)</p> <p>2.1.2 Labour market training</p> <p>2.1.3 Recruitment subsidies</p> <p>2.1.4 Temporary public employment</p> <p>2.2 Special measures to combat long term and youth unemployment</p> <p>2.3 Labour market conditions (laws and regulations)</p> <p>2.4 Measures to improve incentives to work (review of benefit schemes combined with active labour market measures)</p>
3. Profound changes in our education system. Raising the quality of human capital	<p>3.1 Strengthened vocational training</p> <p>3.2 Investments in higher education</p> <p>3.3 Measures to improve life long learning</p>
4. Good conditions for job creation in the private sector. Investment in physical capital	<p>4.1 Oversee the functioning of capital markets</p> <p>4.2 Appropriate levels of investment in infrastructure</p> <p>4.3 Good conditions for employment creation in small - and medium sized enterprises</p>
5. The Public Sector. Focus on the employment content of the budget within an overall stance of sound public finances. Efficient tax systems.	<p>5.1. Limiting overall public expenditures to less than the growth of GDP over the medium term</p> <p>5.2. Switching of the composition of expenditures and incomes (taxes) as appropriate to strengthen employment and the environment</p> <p>5.3. Review the possibilities for payment and easing other constraints on the supply of public services</p>

* A system of stable exchange rates is assumed.

In the following, referring also to the main themes of the on-going employment processes in the EU²⁾ and the OECD, brief exposures on some Norwegian experiences and policies regarding:

- Maintaining Cost Competitiveness.
- Active and effective labour market policy.
- Raising the quality of human capital.
- Good Conditions for Job Creation in the Private Sector.
- The Public Sector: Towards Efficient Budget Policies and Tax Structures

are set forth.

²⁾ «Growth, Competitiveness and Employment - Challenges and Ways into the 21. Century.» European Commission December 1993. «The Action Plan of the European Council.» Presidency Conclusions, December 1993. Reference is also made to the Presidency Conclusions of the European Council meetings in Essen in December 1994 and in Amsterdam in June 1997.

III MAINTAINING COST COMPETITIVENESS

6. A general consideration is how to maintain satisfactory cost competitiveness in small, open economies in an environment of free trade in goods and services, cfr. the EEA agreement, while aiming at predictable and stable exchange rate regimes (within Europe). Norwegian authorities assume, furthermore, an equitable distribution of income, and that the main elements of the modern welfare state remain intact. Within such a framework, an important element is a concerted effort involving the social partners in order to improve the working of the economy, and thus its ability to create new jobs.

Improved competitiveness of individual countries by devaluation of currencies to counter a decline of economic activity, often means exporting problems to neighbours. That is why strengthening/maintaining competitiveness and activity by other measures is needed. Stable exchange rates is therefore the anchor of income policies in Norway.

7. From the 1970s to the late 1980s cost competitiveness deteriorated continuously in Norway. This was a period of, inter alia, pressures in the labour markets, repeated devaluations of the Norwegian krone, and high inflation. In the late 1980s Norwegian authorities decided to switch to a regime of stable exchange rates as a basis to improve the performance of the Norwegian economy. Cost competitiveness over the period since 1989 is estimated to have improved significantly - inter alia through consensus or income policies - within a framework of exchange rate stability. An important challenge for the second half of the 1990s is how to improve, or at least maintain, present levels of relative cost competi-

tiveness. Thus, due attention is given by Norwegian authorities both to the system of wage formation, and to formal and informal discussions of incomes policy³). The objective is to provide a level of competitiveness that will combine a continued growth of employment in the 1990s with continued low inflation. Thus, in the Norwegian setting one wants to utilize and improve the present two-tier wage model in the private sector.

A key feature is that national or overall considerations regarding the impact of wage moderation on employment, prices, competitiveness, the balance of payments, public finances and secure room for manoeuvre in economic policy, are continuously given sufficient weight. It is felt that in Norway this can best be achieved in central negotiations focusing on total wage growth. At the same time there is a need for flexibility and some scope for local wage adjustments and differentiation. A part of the wage increase is therefore negotiated at the firm level, and it is differentiated according to the actual economic position of individual enterprises in accordance with guidelines agreed by the labour market partners and market developments⁴). Thus, the two-tier negotiation system offers the possibility to exploit the advantages of both forms of negotiations. I.e. on attempts to benefit from the acknowledged advantages of «macro flexibility» of central negotiations in order to limit overall nominal wage and price developments and to improve or maintain cost competitiveness, while at the same time aiming at «micro flexibility» through local negotiations.

8. As an important element in the preparations of the settlements, the Technical Reporting Group seeks to agree on the general eco-

³) The institutional set up in Norway consist of a Contact Committee chaired by the Prime Minister with the participation of the Ministers of Finance and Labour and the social partners, and a Technical Reporting Group chaired by the Director of Statistics Norway and consisting of professional economists from the economic ministries and the social partners. The Technical Reporting Group publishes two reports each year. See NOU 1992:26.

⁴) Such guidelines have been made explicit, see: «Report on Certain Issues Related to Wage Negotiations between LO and NHO», Oslo February 1992.

nomie factual basis for wage negotiations, and the overall or national considerations regarding cost competitiveness, inflation and the employment outlook. A report on these matters is published in January each year ahead of discussions in The Contact Committee at the political level to arrive at consensus views of the economic situation and prospects before the start of the negotiations. It is assumed that the authorities do not participate in the actual wage negotiations in the private sector. The negotiations in the public sector are normally taking place after the completion of negotiations in the private sector. The public sectors are usually followers, taking wage developments in the private sectors exposed to foreign competition into consideration.

9. It is argued that, after periods of high inflation in the 1970s and 1980s, consensus- and incomes policies have contributed importantly to the low inflation regime being established in Norway in the 1990s. This has been done at a much lower level of unemployment than in most European countries. The challenge for the period ahead is to maintain low nominal price- and wage developments and satisfactory cost competitiveness in a setting of low and decreasing unemployment. In this connection, the framework of income policies - i.e. prudent macro policies and structural policies to strengthen the supply side of the economy - is important.

IV ACTIVE AND EFFECTIVE LABOUR MARKET POLICIES

10. Norway has been experiencing strong employment growth and notable reduction in unemployment since 1993. For 1997 employment growth is projected to about 45 000 persons, or 2.1 per cent, giving an employment growth of nearly 170 000 persons over four years. At the same time, the labour force participation rate has increased considerably, resulting in a more moderate reduction in unemployment. Nevertheless, the rate of unemployment has been reduced from 6 per cent in 1993 to 4.9 per cent in 1995 and further down to 4.4 per cent in 1996, measured by the old index. By the new labour force survey method, the unemployment in 1996 is measured to 4.9 per cent and expected to be reduced towards 4 per cent in 1997.

*Table 2. Main features of the Norwegian labour market.
Rates 1988-1996*

	1988	1990	1992	1993	1994	1995	1996
Survey:							
Labour force participation ¹⁾ ..	71.1	69.2	68.4	68.2	68.6	69.6	71.4
Unemployment ²⁾	3.2	5.2	5.9	6.0	5.4	4.9	4.9
Long term unemployment ³⁾ ..	15.9	37.4	40.9	43.4	44.1	43.0	29.9
Youth unemployment ²⁾	8.2	11.7	13.8	13.7	12.8	11.8	12.4
Registered unemployment ²⁾ ..	2.3	4.3	5.4	5.5	5.1	4.7	4.2
Ordinary labour market programmes ²⁾	0.9	1.9	2.3	2.7	2.6	2.0	1.5
Programmes for disabled ²⁾	—	—	—	—	—	—	1.8

¹⁾ Per cent of working age population (16-74).

²⁾ Per cent of labour force.

³⁾ Per cent of unemployment. Long term unemployment is defined as unemployed more than 6 months.

— Comparable data prior to 1996 not available.

Table 2 reviews the main characteristics of participants, unemployment and labour market programmes during the period 1988-1996. One should note that long term unemployment is defined in Norway as unemployment for more than six months - in contrast to the general international definition which is unemployment for more than 12 months.

11. These developments pose new challenges for labour market policies. Despite a notable improvement in the labour market, long term and youth unemployment in Norway is still unacceptably high. Experience from many countries in the mid 1980s shows that strong private demand growth in the economy, very quickly reduced unemployment. However, the high employment level could not be sustained due to, inter alia, increasing inflation. The result was a sharp fall in employment during the ensuing downturn in the late 1980s or early 1990s. The main challenge in Norway for the second half of the 1990s is to secure balanced and sustainable economic growth which gives a lasting reduction of unemployment levels according to the objectives of the Solidarity Alternative⁵⁾). European experience indicates a link between high unemployment and structural conditions which is not significantly changed even when there is an economic upturn over several years. High actual unemployment over a long period may cause changes in the functioning of the labour market, which may make it increasingly difficult to reduce unemployment to earlier low levels. Norway is facing similar challenges, even though we have a more favourable point of departure than many other countries. A broad strategy of macro-, income- and structural policies is needed, cf. section II and Table 1. One important element, presently and in coming years is to put more emphasis on measures to improve the functioning of the labour market. Such measures will

⁵⁾ The objective according to the Solidarity Alternative was to reduce average unemployment to around 3 1/2 per cent by the year 2000, according to the old index. This equals about 4 per cent by the new labour force survey method.

consist of a strengthening of the work approach, and increased focus on placement and mobility.

12. Regarding the framework for the functioning of the labour market, a number of laws and regulations affect the national employment and unemployment level by the way these affect demand for labour by enterprises:
 - The Act relating to Worker Protection and Working Environment includes regulation of working hours, engagement, notice to leave and dismissals. It also contains provisions about transfers of occupationally handicapped employees.
 - The Employment Act regulates the permission to operate placement services and the hiring and hiring-out of labour.
 - The Act on Obligatory Pay during temporary lay-offs stipulates that some of the costs associated with temporary lay-offs is paid by the employer.

These laws and regulations influence the adjustments of the labour force to changes in demand for goods and services.

13. Placement services are, with a few exceptions, a monopoly of the Public Employment System. The Norwegian Employment Commission underlined the importance of an efficient public placement service of high quality, but also proposed a relaxation of the monopoly, enabling others to offer supplementary placement services on a noncommercial basis.

A revision of the Employment Act according to these principles was adopted by the Parliament in 1993. There has been little interest from the social partners as well as other organisations in offering placement services. But this year, private placement of foreign doctors was initiated.

14. In February 1995, the Parliament adopted changes in the Act relating to Worker Protection and Working Environment. It contains greater flexibility within the existing regulations in some areas, e.g. that the individual work place should be given more flexibili-

ty to agree on working hours arrangements that deviate from the framework on which the law is based. The use of fixed term contracts was restricted to enhance the security of the employed. However, the opportunities to use fixed term contracts for artists, research personnel, and workers within sport activities was expanded in January 1997 to satisfy the special needs for flexibility and renewal in this areas.

To ensure equal opportunities for everyone to take part in the labour market, the government put forward a proposal in May 1997 which prohibit any discrimination based on race, colour, or ethnic origin when employing labour.

15. The Act on Obligatory Pay during temporary lay-offs gives the employer an obligation to pay full wages the first three days of a temporary lay-off. Furthermore, the act limits the total length of a lay-off during which the wage payment obligation can be transferred to the unemployment insurance scheme. The act stipulates that during a period of 18 months the employer may lay off a worker for a period of 52 weeks without wage payment obligation.

During this period the laid-off worker may receive ordinary unemployment benefit, if qualified. After the 52 week period the employer is obliged to pay wages for the remaining part of the lay-off.

16. As regards labour market policies, Norway gives top priority to active measures in addition to passive income maintenance. This requires inter alia:
 - A strong and efficient public labour market service designed to promote mobility and remove bottlenecks in the labour market.
 - That labour market training is preferred to creation of temporary public employment.
 - Active measures directed at exposed groups, especially youth and long term unemployed.
 - Mobilization of labour supply through early intervention towards the unemployed and integration measures towards the disabled.

- That unemployment benefits are strictly reserved for the entitled.

As a follow up of the proposals in the Norwegian Employment Commission, a separate commission for active labour market policy proposed an increase in the labour market measures in 1993 and 1994, viewed in connection with a further strengthening of labour market policies in Norway⁶⁾. The increase should be directed towards the exposed groups, as well as introduction of job clubs and networks for unemployed in order to counteract passivity. From 1987 to 1993 active labour market measures increased from 0.3 per cent of the labour force to 2.7 per cent of the labour force (programmes for disabled not included). In 1996 the level of labour market measures was reduced to 1.5 per cent of the labour force, due to the improvements in the labour market, and is expected to be further reduced to about 1.2 per cent in 1997.

17. A strong and effective public employment service is a necessary part of the active labour market policy. In Norway the public employment offices have combined functions of benefit administration, placement and counselling of job-seekers and allocation of the unemployed to labour market programmes. This integrated system makes it possible to combine the control of benefit entitlements with the necessary contact with benefit claimants, to avoid that they drift out of contact with the labour market and into a discouraged worker status. The capacity of the employment services has been strengthened significantly in recent years. 46 new labour market offices were established during 1993 and 1994, so that the total number of offices is now 167.
18. To fight youth unemployment, the Government has strengthened the following three types of measures:
 - Ordinary education and vocational training, see section V below.

⁶⁾ See: «Active Labour Market Policies», Norwegian Official Commissions (NOU 1993:6).

- General measures to promote the transition from school to work.
- Labour market policy based on training and self-activities.

For young people without necessary qualifications, the first priority is given to ordinary education. Since 1987 the capacity of secondary and higher education has increased sharply, contributing to increased investment in education and training, and to reduced labour force participation rates among youth.

For registered unemployed persons below the age of 20 there exists a guarantee: It assures an offer of training or a subsidised job for those unemployed teenagers that cannot in the first instance be given an ordinary job or attend an ordinary course of education. Most labour market programmes for this group emphasize the training aspect, and encourage the participants to enrol in normal education. The programmes are designed to provide the young unemployed with work practice, and the work normally includes some form of training. This guarantee has reduced the number of registered unemployed among teenagers shifting the direction of concern to unemployment in the age group of 20-24, especially the long term unemployed in this age group.

Young people in the age-group 20-24 years are overrepresented among the unemployed. Most of them are, however, unemployed for a short period of time. The relative proportion of long term unemployed (unemployed for more than 6 months) is considerably lower than that of most older age-groups. By the end of 1996, 12 per cent of the registered 20-24 years old were long term unemployed, compared to 37 per cent of those above 25 years of age. To combat unemployment among the 20-24 years old, the Government has strengthened the efforts for this group. Unemployed should be given an offer of either a job, education or a place in a labour market measure within 26 weeks, i.e. before they become long term unemployed.

The overrepresentation of young people among the unemployed are caused by several factors. Young people are on their way into the labour market, i.e. in transition from school to work. Youths also change jobs more often than people in older age categories who are employed, and frequent transitions between work and education are common. Further, a high and increasing proportion is in the education system, which means that full-time workers - and persons seeking full-time work - in this group to some extent consist of persons with low education. The wage structure may in some sectors be an obstacle to employment of youths without experience or fulfilled education. These factors seen together may explain why it takes time to find a good adjustment to working life.

19. Although Norway phased out parts of the direct job creation schemes during the latter half of the 1980s so that training has been the major instrument of labour market policy for jobless adults, the job creation schemes (temporary job creation in the public sector and non governmental organisations and wage subsidies in the private sector) comprised 27 per cent of all programme participants in 1996. The job creation schemes are by and large intended to engage the long term unemployed. These job creation schemes, mostly appearing in the public sector, has been viewed as one of the most appropriate policy instruments for many long term unemployed for which an alternative of prolonged idleness would be harmful.

For a special group of long-term unemployed, unemployed that have passed their second spell of the benefit period (2 x 80 weeks), there exists a special effort. Given that they have worked for at least 36 months of the last 4 years before their first unemployment benefit period, they are offered different types of labour market programs, mostly Labour Market Training courses and Trainee Places. The purpose of this effort is to improve their job prospects and to provide them with a reasonable income.

20. For unemployed adults not covered by this special effort, the policies emphasize counselling and labour market training. To give further consideration to counselling, jobclubs are introduced as a programme for registered unemployed. The purpose of the job clubs is to help unemployed find ordinary jobs, or to determine the need for further training, work experience or upgrading through labour market schemes.

Labour market training courses are the main programme directed towards unemployed adults, comprising 43 per cent of all labour market participants in 1996. This illustrates that labour market policy should also be seen as an instrument to invest in human capital, and thus as complementary to educational measures. Training and retraining programmes are designed to raise the employability of the unemployed by removing bottlenecks and increasing labour force qualifications, but long term unemployment among older workers remains a serious structural challenge in the Norwegian labour market.

21. Programmes for disabled are based on two strategies:
 - Early intervention.
 - Integration.

The fundamental underlying principle is that work is important for the individual and for the society as well, so that individual citizens should take part in production according to their ability. As a consequence, every possibility to bring disabled people into productive activity should be tried before awarding a disability pension. A two-pronged approach is followed where on one hand the medical criteria for receipt of disability pensions and sickness-benefits are defined and practised restrictively, and on the other hand increased emphasis is given to vocational rehabilitation.

Early intervention is combined with the underlining of employers responsibility to prevent disability at the workplace and to provide rehabilitation for their own employees. During rehabilita-

tion, wage subsidies or wage compensation may be given. A new service has been set up within the labour market service, to assist employers in organizing workplace rehabilitation. This means a shift in policy from passive economic subsidies to active professional guidance. Integration means that disabled people are given training and work experience in an integrated setting, and that open employment is preferred to sheltered employment whenever possible. Economic incentives in the form of timelimited wage subsidies are offered to employers to facilitate placement of disabled workers in permanent jobs, or «work experience» programmes.

Even so, sheltered employment is an important part of the programmes for disabled, targeted mainly at mentally retarded and other groups with limited work ability. «Labour market enterprises», have a dual function: to provide short term rehabilitation and long term sheltered employment.

Integration into regular employment is also attempted for groups such as mentally retarded people, based on «supported employment», offering personal support and follow-up to disabled after job-placement.

22. All employees are covered in a compulsory unemployment benefit scheme that is part of the National Insurance Scheme. The administration of this scheme is, as mentioned, the task of the labour market authorities, and the scheme is integrated in the general service of the employment offices. The unemployment benefit system follows three main principles:

- Partial compensation (significantly below earlier wages, i.e. a low compensation rate).
- Limited duration.
- Availability for ordinary employment (de facto job- searchers).

Availability and willingness to work requirements imply that the unemployed must be willing to accept suitable work or parti-

cipation in a labour market programme to continue to be entitled to unemployment benefit. Benefits may temporarily be suspended if the person concerned is considered to be unemployed by his/her own choice.

To secure that the recipients have a prior connection to the labour market and to promote a more active labour market policy, a new legislation took effect for persons claiming unemployment benefit from 1. January 1997. The aim of the change was to clarify that unemployment benefit is not intended as general income support, but as temporary compensation. The access to benefits was tightened, and the benefit period got a definitive end. The requirement of previously earned income was raised, and income from labour market measures no longer qualifies for daily cash benefits during unemployment.

Previously earned income from work is a condition for entitlement to daily cash benefits. A daily cash benefit is granted if the person concerned has a reduction in working hours by at least 40 per cent compared to previous working hours. Normally the daily cash benefits give an annual compensation of about 62- 68 per cent of the previously earned income. The benefit period varies depending on earlier income (3 years or 1,5 years).

23. In accordance with recommendations from OECD, Norway has conducted several evaluations of the labour market programmes, to ensure that public resources are spent in an effective way. The evaluations will now form part of a continual review of the design of these programmes, to ensure that they adapt promptly and efficiently to changing conditions and circumstances in order to contribute to a further reduction of unemployment in coming years.

Evaluations of several programmes show that participants generally have higher job probabilities than non-participant. But there are differences between the various programmes, depending inter alia on the design and duration. Programmes which are based on the need of the individual participant as well as labour

market demands seems to be most effective. This poses challenges for the public employment service on their programme administration.

V RAISING THE QUALITY OF HUMAN CAPITAL

24. Basic principles and priorities of Norwegian educational policies through Reform 1994 are:

- All young people are given the opportunity to receive education and training leading up to university entrance or vocational qualifications.
- A high general level of education in the entire population.
- Equal opportunity and access to education should be secured. The equality dimension in Norwegian educational policy is strong. Education is also seen as an important means, both at a macro and an individual level, to promote investment in human capital and employment.
- A decentralized education system.
- Education shall meet both long-term and short-term requirements of qualifications in the labour market.
- More weight is put on a broad and general initial education, leaving specialization to later stages and training at work.
- Coordination between school authorities and the business community. The co-operation with the social partners is institutionalized at the national level.
- Improving the possibilities for apprentices to be recruited into higher education from vocational training.

25. The Norwegian Employment Commission and the Government's Long-Term Programme, stressed the need for an increase and strengthening of vocational training for young people and adults, and that investment in adult education should be increased. Speci-

al priority and attention should be given to adults with weak basic skills. These recommendations are intended to meet the structural problems and future needs of the labour market, internationalization (including the need to document formal professional skills in order to acquire work), and the role of education in strengthening employment over the longer term. The ageing of the labour force and the need to update and widen professional skills of older workers are additional, important factors. In the perspective of lifelong learning two strategies are being pursued:

- To provide young people with a sound initial education, and stimulate their ability and motivation for further learning throughout life.
- To establish a coherent and improved system for updating and retraining the skills of adults.

In February 1996 the Norwegian Parliament requested the Government to present a White Paper on a Lifelong Learning Reform. The aim will be to create the basis for a National Action Plan on Adult Education and Continuing Vocational Education and Training. A Government committee has been appointed and will submit its recommendations by October 1997. The Government aims to present a White Paper during the spring of 1998.

*Table 3. Primary and lower secondary pupils, upper secondary pupils, apprentices and students in higher education.
1000 persons*

	1992-93	1993-94	1994-95	1995-96	1996-97
Primary and lower	463	467	470	477	487
Upper Secondary	200	195	185	176	171
Apprentices	18	19	21	23	28
Higher education	156	163	165	170	171

Sources: GSI, USI, SASA and Proposition No. 1 (1995/96)

The resources used on education in Norway amounts to 7.6 per cent of Gross Domestic Product, while the OECD average is 4.9 per cent (1995) according to the OECD database.

26. The provisions of Reform 94 include giving the age group 16-19 years a statutory right to upper secondary education (school and apprenticeship) lasting 3-4 years. Although over 90 per cent of the 16-19 year olds have passed from compulsory to upper secondary education since the late 1980s, a number of persons have not yet received a coherent and/or complete cycle of vocational or general education. The Reform is intended to remedy this, offering initial education of 12 years, and of 13 years for school starters from 1997, for all young people in Norway. In addition, the aim is, with the co-operation of the social partners, to create 17 000 new apprenticeship contracts annually by 1997/98, compared to around 10 000 in 1994. The Trade Union Council and The Employers Confederation have reached an understanding in principle concerning Reform 1994, in which they are committed to offering apprenticeship places to at least one third of each age cohort starting in 1996.
27. Approximately one fourth of the adult population every year participates in some form of non-formal or formal courses as a part of life-long learning. The major sectors are in service training within private and public firms, and improved qualifications by means of the study-circle activity provided by voluntary associations, each representing approximately 40 per cent of the total activity. Formal education represents only about 4 per cent of these activities.

Table 4. Adult education in 1996. An overview

The study associations	743 800 persons attending vocational and leisure courses with an average of 29 hours per course
The folk high schools	7 100 participants covered into full time students*
The distance education institutions (NGO)	89 000 enrolments. 58 000 participants completed corresponds to 6 000 full time students
Training of non-native-speaking adults	22 000 persons attending courses in basic Norwegian
Labour market courses	52 200 participants, 3 300 courses
Primary and lower secondary education for adults (offered by the Regional Municipalities)	121 300 hours of teaching, 2 900 students
Upper secondary education for adults	21 800 full time students, 9 800 part time students

*) The figures refer to the year 1995

An overview is given in table 4. These are rough estimates, and the table does not include data relating to in-service training and adult education offered by universities and colleges.

There is a separate Adult Education Act (1976) regulating all the different areas of public funded adult education. The perspective of lifelong learning dominates. There are few separate institutions set up for formal adult education. The basic principle is that ordinary educational institutions also are responsible for providing education for adults. In addition to especially organized targeted courses, adults can, and to an increasing extent do, enrol as ordinary pupils/students at educational institutions. There is clear or significant causality between relatively (low) levels of education and (high) rates of unemployment in all age groups. To improve the formal vocational competence of adults:

- The capacity within higher and upper secondary education has been increased. Norwegian counties are from 1994 required to have a capacity within upper secondary education which is minimum 375 per cent of the average age cohort of 16-19 year olds, to meet the needs of adults.
- Workers with practice from a specific field, can without formal schooling pass exams to document their skills and receive the formal certificate. Around 7 100 workers did that in 1995.
- It is intended that long-term (more than 6 months as defined in Norway) unemployed 20-24 years of age, with an incomplete upper secondary education shall be given the opportunity to finalize the lacking grades.
- Adults who are regarded as having insufficient basic skills, can receive education parallel to lower secondary education in a compulsory school.
- Development of curriculum guidelines that are adjusted to the learning of adults, i.e. built in modules, recognizing previous practise and skills etc.
- Supported by state funding, responsibility is given to voluntary associations with the task to provide a wide range of courses and be supplementary to public educational institutions.

Distance education and new technologies are seen as important means to reach a higher number of adults with efficient and relevant education. Voluntary, non-governmental institutions have a central position within distance education, and a separate institution for distance education within higher education was established in Tromsø in 1990.

Norway has no uniform, national regulations of (paid) education or training leave, this being subject to agreements between the social partners. Adults are entitled to use the ordinary student's loans and grants system through the State Education Loan

Fund, and there is no separate funding for adults who want to pursue life long learning.

28. Within upper-secondary education, both general and vocational, the number of specialized courses has been significantly reduced. The entire set of curricula within upper secondary education has recently been revised. The Reform within upper secondary education (Reform 94) gives high priority to increasing the vocational courses and educational programmes for young people within enterprises.
29. In 1994 26 new institutions were established by reorganizing and merging 98 colleges, some of which were very small and specialized. These colleges and the universities constituted «Network Norway», a national research and higher education network based on the principles of specialisation, co-operation, and communication. Accordingly, student flows between the colleges and the four universities are encouraged and can be realized without transfer limitations. The total number of students in higher education increased from 95 000 in 1987 to 171 000 in 1997.
30. A new act on universities and colleges was passed by the Norwegian Parliament on the 22 May 1995, and came into effect on 1 January 1996. The seven former arts and crafts colleges and academies are reorganised and merged into two institutions (one in Oslo and one in Bergen) as of 1 August 1996, and are regulated by the 1995 Act through an amendment of June 1997.
31. The main direction of educational policy and further improvements in the quality of human capital in the coming years will be determined by the reforms recently implemented or under implementation. Challenges in this connection are the following:
 - Upper or secondary schools should increasingly be seen as training and skill centres in close contact with local industry and commerce; schools are encouraged to provide short courses and inservice training to meet local and regional needs.

- A gradual adjustment of the education of students in order to put more emphasis on qualifying for entrepreneurship and establishment of private activity and new firms, and to improve the transition from education to work.
- A strategy for lifelong learning as developed by the Government will to a larger degree than hitherto imply an active co-operation with the acknowledged study associations and distance education institutions, as well as with the ordinary education system.

In the Government's Long Term Programme 1998-2001, it is also stressed that enterprises ability to adjust and innovate is becoming an increasingly important aspect of competitiveness. This comprises elements such as the development of products and organisation and strengthening of the capabilities of management and employees. With a greater knowledge content in products, increased innovation is necessary to enhance value added and employment. The business sector's skills requirements, therefore, have an important bearing on the knowledge that should be provided by the education and research system

32. Cooperation with the EU in the field of education and training is based on Protocol 29 and Protocol 31, article 4, in the European Economic Area Agreement. According to these protocols, the EFTA states are entitled to participation in all programmes in the area of education, training and youth as of 1 January 1994.

Accordingly, Norway has full access to the action programmes for education and training, Socrates and Leonardo da Vinci, along with other related activities such as the European Year for Lifelong Learning in 1996. A comprehensive national structure, including national co-ordination units and national committees with broad representation from NGOs and SMEs, has been established to implement the participation in the action programmes. These committees, one national committee and six special committees,

provide guidelines and give advice on national priorities for Norwegian participation in the programmes.

Through the Socrates programme, Norwegian authorities participate fully in the EU educational information network EURYDICE. Norway also participates in CEDEFOP (Centre européen pour le développement de la formation professionnelle), based upon a framework agreement between CEDEFOP and EFTA and a separate agreement between CEDEFOP and Norway.

Within the framework of the EEA Agreement, there is also a substantial co-operation concerning directives for mutual recognition of diplomas. Thus, EU directives on mutual recognition of diplomas are valid in Norway and for Norwegian diplomas.

Furthermore, Norway under the EEA Agreement takes full part in the EU Fourth Framework Programme for Research and Technological Development. Management and co-ordination of the participation is organised by the Research Council of Norway, in co-operation with other relevant institutions and organisations. Norwegian partners are active in all parts of the programme.

VI GOOD CONDITIONS FOR JOB CREATION IN THE PRIVATE SECTOR

33. A main consideration for policies under this heading in coming years is that value added in mainland-based industries in all parts of the country must be enhanced in order to address the challenges associated with lower expected petroleum revenues in the future. The increased internationalisation of industry also places considerable demands on a coherent and coordinated industrial policy. The Norwegian Government will seek to achieve a more cross-sectoral and coordinated industrial policy effort between the relevant authorities. The Norwegian government attaches great importance to the task to contribute to making Norwegian industries competitive in their fields. Special emphasis will therefore be placed on measures which can contribute to an improved targeting of industrial and regional policy instruments on conditions which represent obstacles to the development of enterprises and higher employment. The Government also attaches importance to the promotion of increased competition as an element to enhance the functioning of markets and profitability, to the contribution to strengthening innovation and enterprises' ability to use new knowledge and technology. The creation of conditions for education and postqualifying training which strengthen the enterprises' ability to remain competitive and to adjust according to changing conditions are other elements in this strategy. See section V.
34. The discussion below concentrates on the following elements:
- An efficient network of transport.
 - Increased co-operation in the field of research and development.

- Industrial policies to strengthen small and medium sized enterprises.

An Efficient Network of Transport

35. Making it easier and cheaper for people, goods and services to move around will increase the competitiveness of the economy. Important elements in a transport policy for growth and competitiveness in the Norwegian context are:

- High investment levels
- Deregulation in the field of transport
- A more cost-related pricing policy
- Evaluation of subsidy schemes.

Since 1990 the Government has, as part of its overall growth and employment strategy, kept high investment levels on transport infrastructure. Particularly railway investments have been increased in this period.

Main elements in the Government's transport policy for the years ahead were presented in reports to the Parliament this spring. These documents give, inter alia, detailed investment plans for the period up to 2001. These reports or white papers, which have all been adopted by the Parliaments, are:

- Norwegian road and road transport plan 1998-2007 (Report no. 37 to the Parliament for 1996-97)
- Norwegian air transport plan 1998-2007 (Report no. 38 to the Parliament for 1996-97)
- Norwegian railway plan 1998-2007 (Report no 39 to the Parliament for 1996-97).

The yearly state investments in the road sector in the period 1998-2001 are planned to be nearly at the same high level as in 1994-97, and amount to more than 16 billion NOK for the period

as a whole. The state investments in railway infrastructure in the period 1998-2001 will be further increased from the period 1994-97 and amount to nearly 5 billion NOK for the period as a whole.

In addition, the state investments in airports will be at a high level. This is particularly due to the building of the new international airport for the Oslo area (Gardermoen airport).

The proposal to spend more than 16 billion NOK on state road investments include trunk roads, other state roads, investment related to improving the environment, traffic safety measures and bicycle networks. The priorities given to road investments makes it possible to accomplish important investment projects in all parts of the country.

The background for the high investment level in the railway sector is the Government's objective to improve the position of the railway in the Norwegian transport system. These investments include the building of a new railway line to the Gardermoen airport. This line will be financed by loans from the State, and paid back as an extra charge on passenger traffic.

36. In order to give the political authorities a better basis for carrying out consistent road policies, a new planning system for the road sector have been implemented in the Road and road transport plan 1998-2007. Within this system, more emphasis will be placed on transport routes and networks, both nationally and in a larger European context. Up to now, the main focus has been on specific investment projects.
37. Within the EU, much emphasis is put on the development of Trans European Networks (TEN). The Commission has put forward a proposal for Guidelines for development of TEN to The Council and the European Parliament, based on The Maastricht Treaty, article 129. Norway participated during 1993 and 1994 in preparatory work for these guidelines. It has through this work been defined rail and road routes in Norway which should be part of TEN.

To assist the Commission, the Christophersen group was established in 1994 with representatives from Heads of Governments. Norway participated in the second half of 1994, and Norway submitted two road- and rail networks as an integrated part of the Nordic Triangle which was included on the list of 15 priority projects in the final report of the Christophersen group. This proposal was adopted by the Essen European Council in December 1994. In this connection Norway co-operates with the European Investment Bank in order to accelerate important sections of the main transport route or network (both the roads E6 and E18 and the main rail lines (Østfoldlinjen and Kongsvingerlinjen) from Oslo to the Swedish border to improve transport routes through Sweden and Denmark to Central Europe. Enhanced European co-operation in this field will thus contribute to increased growth and competitiveness both nationally and for the region, as development of efficient transport networks is seen in a larger Nordic and European setting.

38. The Government is pursuing a policy of deregulation in the field of transport. This is particularly the case for air transport. The EEA agreement implies the establishment of an area with common rules for civil aviation between the parties on the basis of the EU rules. As a consequence of the agreement, and of a political decision by the Norwegian Government and the Parliament on how to take account of the new rules in the EU, air transport to and from Norway is open to competition. With some temporary exceptions as regards cabotage traffic rights and exclusive concessions, the same is the case for domestic air transport.
39. To improve resource allocation, the prices of transport services ought to reflect the economic costs to a larger extent; including external costs. Calculations indicate for example that duties on petrol for private cars are high, while the duties on fuel for other vehicles are low.

In recent budgets, the Government has implemented changes in

taxes on transportation that are steps in the direction of a more efficient tax system.

The Norwegian Green Tax Commission, see chapter VIII, has recently evaluated the present tax system and made suggestions on how it may be changed in order to increase employment and reduce the use of natural resources and harmful emissions. Regarding the taxation of vehicles, the commission suggests increased duties on fuels other than petrol (gas and diesel); increased purchase taxes on the heaviest private cars; and that the annual vehicle tax is differentiated according to emission standards. The Commission considers road pricing to be a significant future environmental measure. The Commission also proposes a CO₂-tax on jetfuel and points out that a tax on aircraft should be considered.

40. Some parts of public transport in Norway is heavily subsidized. For this reason it is important to see the different parts of the transport sector as part of a total system, and avoid as far as possible that investments in one part of the transport sector contributes to a deteriorated resource allocation and higher investments in other parts of the sector. The Government will make an appraisal of the effect of different subsidies so as to improve cost effectiveness and thus the benefits to the private sector as part of an overall strategy of growth and employment.

Increased Co-operation in the Field of Research and Development

41. In Norway high priority is given to research and development (R&D) aimed at the industrial sector, and the need to strengthen industry's participation in R&D programmes, as well as basic technological research.
42. Total spending on R&D in Norway has increased in real terms by nearly 20 per cent in the period 1985-1995. Total R&D expenditures in Norway amounted to 15.970 million NOK in 1995. This amounts to close to 1.7 per cent of the Gross Domestic Product.

Table 5. Total R & D expenditure in Norway 1993-1995. By sector of performance (Mill. NOK current prices).

Sector of performance	1993	1995
Industry	5 631,2	7 340,6
Institute sector	4 810,7	4 490,7
Higher educational sector	3 893,7	4 139,1
Total	14 335,6	15 970,4

Note: This basis for R&D statistics has been extended between 1993 and 1995. This particularly pertains to the sample in the industrial survey, and causes comparability problems. If we compare similar samples of units both years there is an estimated slight decline (fixed prices) in total R&D expenditure between 1993 and 1995. Sectoral developments are: industry - up 1 per cent, institute sector - down 8 per cent, higher education - unchanged.

Source: Norwegian Institute for Studies in Research and Higher Education.

Table 6. Total R&D expenditure in Norway in 1993 and 1995 by source of funds (Mill. NOK current prices).

Source of funds	1993		1995	
	Mill. NOK	% of total	Mill. NOK	% of total
Industry	6 008,4	41,9	7 899,5	49,5
Public funds	7 065,0	49,3	6 938,7	43,1
Other sources, abroad	1 262,2	8,8	1 132,2	7,1
Total	14 335,6		15 970,4	100

Note: This basis for industrial R&D statistics has been extended between 1993 and 1995 (see note to table 5). Comparing similar samples of units both years, industrial funding for R&D increased by almost 9 per cent (fixed prices).

Source: Norwegian Institute for Studies in Research and Higher Education.

43. The Research Council of Norway (NFR) is the main instrument of research policy in Norway. NFR organizes R&D-work through basic funding and research institutes and through support to programmes and projects in industry, institutes and universities. NFR covers R&D- activities from basic research to applied research and development. NFR has an important role in coordinating and

stimulating Norwegian participation in the EU Framework programme.

44. The Norwegian Industry and Regional Development Fund has as one of its tasks to support and stimulate R&D activities in industry, especially within small and medium-sized enterprises (SMEs). The Fund administers public R&D contracts, which are contracts between public institutions and industry, where an enterprise commits itself to develop a new product or process for a public institution and receives public support to carry out the research project. The Fund also administers an arrangement of industrial R&D contracts which came into force in 1994. These are similar to the public R&D contracts, but are based on R&D co-operation between enterprises and do not involve active participation by public institutions.
45. Transfer of knowledge and technology is important in order to optimize the results from R&D activities. Norway emphasizes mediation to users who often lack the capacity to acquire and use new knowledge and techniques on their own, e.g. small and medium-sized enterprises. A systematic integration of the dissemination and exploitation aspect in research programmes and projects is pursued.
46. Participation in international R&D co-operation is considered to be a high priority area to Norwegian research institutions and industry. Norway takes active part in a number of international R&D programmes and institutions, e.g. the EU Framework programme, EUREKA, and the European Space Agency (ESA).

Through the participation in international R&D programmes, Norwegian industry and research institutions have gained access to new knowledge that would not have been obtained on a purely national level. Based on this positive experience, Norway supports measures to strengthen European co-operation in the field of R&D. Of special importance is the EEA Agreement, through which Norway and other EFTA countries will fully participate in

the EU Framework programme for R&D. This gives new opportunities for increased co-operation between European industry and research institutions, and is yet another example of co-operation on a European scale which will strengthen competitiveness and employment both nationally and for the region as a whole.

Policies to Strengthen Small- and Medium-sized Enterprises

47. Norwegian industry largely consists of small- and medium-sized enterprises, SMEs. Small enterprises are defined as enterprises with less than 20 employees, while medium-sized enterprises in the Norwegian context are those employing between 20 and 100 employees. In 1994, about 83 per cent of Norway's 183 000 enterprises had less than 5 employees, and 96 per cent had less than 20 employees. Only 0.6 per cent of the enterprises had more than 100 employees. The small enterprises have increased their proportion of total employment from 34 per cent in 1975 to 40 per cent in 1994. During the same period, the large enterprises with more than 100 employees have reduced their share of employment from 43 per cent to 38 per cent. SMEs were also counting for a larger proportion of value added than before.

SMEs offer certain advantages as a basis for growth and employment. They are flexible and permit rapid restructuring, and they can adjust quickly to changing market conditions. However, the size can also be a distinct disadvantage to these enterprises. Financing is especially difficult. Risk capital is hard to come by, and loans are more expensive for SMEs because they have less security to offer. There may often be a lack of resources to invest where they are most needed.

48. The importance of the SMEs to the Norwegian economy and employment developments, combined with certain disadvantages because of a shortage of resources, has led the Government to adopt an offensive policy in support of SMEs. By conducting an active industrial policy, the Government wishes to stimulate growth of

SMEs. Thus, the following two main lines of action are attempted: improving general conditions and developing special measures for SMEs.

49. To improve general conditions for SMEs and job creation in the business sector, the following elements are important:

- An efficient network of transport, see above.
- Research and development, see above.
- Satisfactory cost competitiveness of industry (Section III). In addition, payroll taxes and certain energy charges were reduced as of 1993. A reduction of the employers contribution to social security (payroll taxes) will especially benefit small and labour intensive enterprises. See also section VII below.
- A simplification of laws and regulations. The Industry and Trade Legislation Committee plays a major role in ongoing work to simplify laws and regulations.
- An improved functioning of domestic markets. A new Competition Act came into force in 1994. The EEA agreement is also important in this connection.

50. As regards special measures to stimulate growth and job creation in SMEs, the following are briefly described below:

- Financial support.
- Support for entrepreneurs and investors.
- Transfer of competence and knowledge to small enterprises.
- Improved co-operation
- Support of marketing, exports and design.

51. To enhance financing opportunities, the Norwegian Industrial and Regional Development Fund has - as already mentioned - been established as a single umbrella for instruments of industrial and regional policy. It is a merger of a number of institutions, the for-

mer Norwegian Bank for Industry, the Industrial Fund, the Small Business Fund and the Regional Development Fund, and became operational 1993. The Fund does not generally favour any specific industry, and one of the main target groups are SMEs. Funding totalling 3.5 billion NOK can be used to finance three loan schemes, one guarantee scheme and two grant schemes (development and district grants).

52. An equity scheme for investing in shares and subordinated loan capital, primarily in small- and medium-sized enterprises was established in 1993. This scheme should be viewed in connection with the Seed Capital Fund which is administered by the Norwegian Regional and Development Fund. The seed Capital Fund provides loan capital to newly established SMEs. The equity scheme can also be used to invest capital in other venture companies.

To reduce some of the disadvantages confronted by SMEs, a separate SME list has been set up on the Oslo Stock Exchange, the reason being that SMEs that are not listed can have difficulties in raising external capital. The requirements for being quoted on the SME list are less stringent than those which apply for regular listing with regards to the information on issuing company and the distribution of ownership. This may create a market place for holdings in SMEs and in venture and investment companies.

In addition, the Government has implemented measures to increase investment in the stock market generally. For example, the State's Social Securities Fund may now invest up to 20 per cent of its capital in Norwegian stocks quoted at the stock exchange.

53. To support entrepreneurs and inventors, a number of instruments are available under both public and private auspices to persons setting up business. They include scholarships, establishment grants, advisory services and follow-up-schemes, and are intended to encourage more establishments of viable and profitable enterprises.

54. Improved transfer of competence and knowledge to small enterprises is encouraged. Increased investment in this area is essential if future demands are to be met. The public advisory system is open to small enterprises, entrepreneurs and inventors. It comprises the National Institute of Technology, The North Norwegian Institute of Technology and Innovation, the Norwegian Government Consultative Office for Inventors, the Regional Business Advisors, the Norwegian Design Council, the Euro Info Centres, the Norwegian Industry Attaches and the Norwegian Trade Council.

Special programmes to enhance competence in SMEs are also run by the Norwegian Industrial and Regional Development Fund and by the Research Council of Norway.

55. Improved co-operation and formation of alliances between business which can supplement each other and acquire greater weight in the market is sought. For SMEs, co-operation can be vital in order to improve manufacturing efficiency and entry into new markets. The authorities have various means of stimulating co-operation and the formation of network. An example is the network program administered by the Norwegian Industrial and Regional Development Fund. The network program continues until 1998 with focus on export markets and co-operation between Norwegian and foreign enterprises.
56. Marketing and sales are areas where small enterprises can have a special need for outside support. The regional consulting service covers the whole country and can advise enterprises on their marketing activities. The Norwegian Regional and Development Fund can support market surveys and marketing relating to new products, existing products in new districts, or new uses. The Norwegian Trade Council carries out a variety of measures to promote increased exports by SMEs. In addition to the Council's general schemes, separate programmes targeting SMEs have been initiated.

Industrial design plays an increasingly important role as a competitive factor. Industrial design is supported by the Ministry of Trade and Industry through the Norwegian Design Council, which offers a broad range of services.

In order to promote the Norwegian tourism sector abroad, several activities are performed by the Nortravel Marketing (NOR-TRA).

57. Through the EEA agreement, Norway and Norwegian enterprises can participate in EU's different programmes and actions for SMEs. This includes for instance participation in the EU's Business Co-operation Network. Norwegian enterprises can register the co-operation they are seeking in a database in Brussels, which can then link them to companies in EU or EFTA countries with related interests. The Network also informs Norwegian enterprises of co-operation being sought by companies in other countries. Links are established through an extensive network of authorised consultants. In Norway the scheme is run by the Export Council.

Another SME program in which Norway participates is Euro-partnerairiat.

VII PUBLIC EXPENDITURES

58. The current situation in a number of European countries is characterized by a limited room for fiscal manoeuvre, due to large budget deficits and high levels of accumulated public debt. Although the situation and prospects vary a great deal among European countries, consolidation of structural budget deficits seems required in most countries over the medium term.

Within such an overall framework, budget policies should as far as possible be carried out with a special emphasis on maintaining/enhancing future potential GDP, employment creation and increasing the employment intensity of growth. In this context, the objective of increased employment points to the need for pursuing the possibilities for more employment intensive budget policies. In this section, the scope for stimulating employment through switches in the composition of government expenditures is briefly explored.

59. Norway accumulated large public sector budget surpluses towards the end of the 1980s due to tight fiscal policies and high oil revenues. This room for manoeuvre was used actively to counteract weak private demand from 1989 to 1993 in order to fight unemployment. In this connection the quality of public expenditures was emphasized in the sense that increases in expenditures on education, labour market measures, investment in infrastructure, research and development were given high priority, cf. sections IV, V and VI above. As already mentioned, the rise of unemployment was accordingly limited to some 6 per cent of the labour force, peaking in 1993, and unemployment is now falling as growth of the private economy has been boyant since 1993. Thus restrictive fiscal policies have been pursued since that time.

As a follow up of one of the proposals of the Norwegian Employment Commission, a special commission was established resulting in concrete proposals for reductions in expenditures on government transfers to business and households of 5 billion NOK with the view that the savings could be used more effectively to meet the employment objective⁷⁾. The Norwegian government adopted the proposals from the commission in its employment strategy. The Fiscal Budget for 1994 and the Fiscal Budget proposal for 1995 imply a reduction in transfers of around 5 billion kroner, compared to a situation with unchanged regulations and benefits.

This increased room for manoeuvre in fiscal policy has been used both to strengthen employment and to eliminate the budget deficit over recent years. See also section II.

60. Employment will be affected not only by the overall stance of fiscal policies, but also by the *composition* of government outlays. On average, a revenue neutral shift from transfers to households and business towards public procurement of goods and services, notably investment in human and physical capital and high priority services, will have a positive impact on total employment. According to model simulations by the Ministry of Finance and Statistics Norway using Norwegian data, a balanced switch from transfers to households and business towards public infrastructure investments and public consumption amounting to 1 per cent of GDP may increase employment by around 1,2 pct. in the short to medium term and reduce unemployment by roughly $\frac{1}{2}$ percentage point, cf. Table 6.

The calculations above only include the demand side effects of an expenditure switch, i.e. direct government demand for goods and services create more employment than private demand generated by transfers. A properly designed switch may in addition yi-

⁷⁾ See: «Less to Transfers - More Employment» Norwegian Officials Commissions (NOU 1993:11).

eld the following positive supply side effects which are not included in the numerical calculations:

*Table 7. Effects of Expenditure Switching (1 per cent of GDP).
Per cent deviations from baseline*

	Year 1	Year 2	Year 5	Year 10
Employment (Hours worked)	1,1	1,2	1,1	1,1
Unemployment ¹⁾	-0,6	-0,5	-0,4	-0,4
Budget balance in per cent of GDP	0,0	0,0	0,0	0,2
GDP, real prices	0,9	0,7	0,6	0,7

¹⁾ Percentage points.

- Improve the functioning of the labour market by reducing distortive incentive effects on the labour supply and wage determination of passive income maintenance schemes.
- Improved infrastructure and investments in human capital may reduce costs and improve productivity in the business sector.
- Improved provisions of welfare services covering e.g. child care and care for the elderly may increase both labour demand and supply.
- Benefit the environment if subsidies to polluting industries can be reduced, cfr. section VIII.

VIII EFFICIENT TAX STRUCTURES: EMPLOYMENT AND THE ENVIRONMENT

61. An Environmental Tax Commission, established by the Norwegian Government in 1990, proposed a comprehensive scheme for integrating environmental policies with policies more generally, especially economic policies, emphasizing cost-efficiency and more use of environmental pricing, notably to curb emissions to air⁸⁾. A number of the proposals, e.g. CO₂ taxes, have since been implemented.
62. To look at the possibilities for changes in the tax structures over the longer term, i.e. into the next century, a new commission (The Green Tax Commission) was set up by the government early in 1995. A main purpose was to look at framework conditions, notably changes in tax structures, which could improve the environment while maintaining high employment.

This Commission looked at following aspects regarding sustainable development:

- Firstly, which taxes are the most distorting?
- Secondly, what possibilities exist over time for increased environmental taxes in order to reduce other taxes, notably with the view of making the use of labour less costly? Are these possibilities, in a longer term perspective, relatively large or not?
- Implementation. What possible implementation strategies could one foresee in a small, open economy (very rich on energy and heavily based on production and exports of petroleum?)
- Rents. A review of taxation of resource rents in sectors such as petroleum, fisheries, agriculture and forestry.

⁸⁾ See Norwegian Official Commission (NOU 1992:3) «Towards More Cost-Effective Environmental Policies in the 1990s: Principals and Proposals for Better Pricing of the Environment», Oslo 1992.

- «Negative green taxes». I.e. subsidies to industry, subsidies given in the fiscal budget, non-tariff barriers, prices below market prices etc.

One conclusion reached, based on recent empirical research in Norway, was that direct taxes on labour (pay roll taxes and income taxes) and taxes on investment are the most distortionary. These studies indicate that reducing taxes on labour and increasing environmental taxes in a revenue neutral manner would improve the functioning of the economy, and should therefore be carried out over time in their own right. Beneficial effects on the environment and on employment are therefore added bonuses or «win-win» policies.

63. A large number of green taxes were proposed by the Commission as it assumed that if they were implemented, the revenues should be used for reductions in pay roll taxes. The macro-economic effects, compared to a baseline scenario assuming no change in present policies, are set forth in Table 8.

Table 8: A Revenue Neutral Increase of Green Taxes of some 1 per cent of GDP Combined With Reduced Pay Roll Taxes of 2,3 Percentage Points. Deviation from the Baseline scenario. Per Cent, 1992 Prices.

	1997	2000	2005	2010
Real Disposable Income for Norway	0.1	-0.1	0.1	0.2
Consumer Prices	-0.1	-0.6	-0.9	-1.2
Employment. Per Cent	0.1	0.3	0.5	0.7
Unemployment. Per cent of the Labour Force	0.0	-0.2	-0.3	-0.3
<i>Energy Use and Emissions to Air</i>				
– Mineral Oil	-2.1	-5.7	-7.8	-9.1
– Gasoline	-1.0	-1.7	-1.4	-0.8
– Electricity	0.0	-0.7	-1.4	-1.2
– CO ₂ Emissions	-2.2	-3.7	-5.3	-6.0
– SO ₂ Emissions	-4.6	-7.5	-9.0	-9.5
– NO _x Emissions	-0.1	-0.8	-0.6	-0.7

Source: The Norwegian Green Tax Commission. NOU 1996: 9.

The calculations illustrate that such a tax switch have significant environmental benefits and at the same time some benefits for over all growth of employment compared to present policies⁹⁾.

Making tax structures more efficient over time therefore seems to be an important element in a policy strategy for sustainable development.

64. The estimated positive effects on employment of such a tax revision using Norwegian data depend on the wage formation process, the economies' ability to substitute from capital- to labour-intensive production, and the ability to bring forward cleaner technologies. There is according to these calculations somewhat less effect on employment and unemployment of «tax switching» compared to «expenditures switching». However, an effort on the European level to reduce taxes on the inputs of labour - for example as suggested by the European Commission - combined with increased green fees should be explored further in search for «a new model of development for Europe» in the medium and longer term as a proposed in chapter 10 of the White Book on Growth, Competitiveness and Employment.
65. Green fees will in any case have favourable impacts on the environment, and would seem necessary if present medium and longer term environmental objectives are to be met. Green fees may also imply more welfare benefits than reflected in the calculations above due to secondary benefits of an improved environment. Green fees may reduce external effects of emissions to air and water, traffic noise and acidification of soil and freshwater lakes. Apart from such direct effects on the environment, green fees may also give positive feedbacks to the economy:

- Green fees may have an impact on labour productivity. The introduction of green fees may lead to a reduction of noise and

⁹⁾ For more details, see Official Norwegian Commission (NOU 1996:9) «Green Taxes. Policies for an Improved Environment and High Employment». Oslo, June 1996.

an improvement of air quality which may reduce sick leaves and improve labour productivity.

- Reduced local pollution because of green fees will reduce the rate of capital depreciation, although this effect is estimated to be rather modest due to reduced corrosion.

Such direct and indirect effects are of course very difficult to quantify. But experimental calculations by Statistics Norway suggest that the positive effects of an improved local environment may provide added benefits to those indicated by the macroeconomic calculations.

The government will present their follow up of the proposals of the Green Tax Commission to the Norwegian Parliament in the Fall of 1997.

ANNEX: OVERVIEW OVER NORWEGIAN PARTICIPATION IN SOME EU PROGRAMMES¹⁰⁾

I TRANSPORT

TEN Trans-European Transport Networks

The main purpose of TEN is to promote a unified transport system for land, sea and aviation. It will cover the entire EEA and opens for connections to EEA-states, Eastern Europe and the Mediterranean countries.

TEN will promote efficient and safe transport, strengthen the competitiveness and regional development of EU, and also improve connections to neighbouring states. TEN includes the infrastructure and necessary services for operation of the infrastructure. TEN also covers telecommunications and energy networks.

As part of the strategy for growth and employment, EU has stressed that projects of outmost priority shall be implemented as soon as possible. The Nordic triangle is such a priority project. In this connection Norway co-operates with the European Investment Bank in order to accelerate important sections of the main transport routes to Sweden.

Admission to trade

EUs directives include transport of passengers as well as heavy goods.

The main purpose of these directives is to improve the technical competence and to secure the economic basis for the enterprises through a permit system. The demand for a permit applies in principle to national and international transport.

¹⁰⁾ Reference is also made to programmes mentioned in the main text. It should be stressed that this is not a complete overview.

The following general demands to operators are applied:

- Certificate of good conduct
- Satisfactory financial basis
- Professional competence

These general demands are under consideration in EU, in particular the extent of the financial basis and the harmonisation of professional competence.

By having a permit the enterprise can, within certain limitations, operate within all EEA-states and thus promote competition in the transport sector.

Admission to market

EU directives imply a partial unwinding of national and international market regulations in the transport market.

The quota-system has been abolished. Today an EEA-permit gives access to an unlimited number of trips to this market. The system of cabotage and third countries quotas, however, still remains, but will be repealed.

The deregulation greatly improves competition in the transport market within the whole EEA-area.

Regional air service

Regional air services in Norway operate on a concession granted by the Government air service and is given to one major operator. The agreement allows for compensation for air services operated on a deficit.

All regional services will from 1 April 1997 operate on a tender basis. This will open the regional domestic air transport market to international competition.

II OVERVIEW OF PARTICIPATION IN EU PROGRAMMES AND NETWORKS PERTAINING TO EMPLOYMENT

Member of EURES - the EU information system for job vacancies and application.

Participant in LEONARDO - EU programme on co-operation pertaining to vocational training and vocational guidance etc.

Participant in LEDA - EU programme for local job creating. Norwegian regions participating in the programme are Valdres and Indre Salten.

Participant in INTERREG - EU programme for cross-boarder co-operation on regional development. 7 countries along the border to Russia, Finland and Sweden are participating in the programme (Østfold, Hedmark, Sør-Trøndelag, Nord-Trøndelag, Nordland, Troms og Finnmark).

Observer in Group of Directors General for Employment and Directors for Employment Agencies. The Group monitors labour market developments in member countries, and also prepares cases which are on the Agenda for the Social Affairs and Labour Ministers Council.

Observer in the MISEP network. MISEP is a network of correspondents in the member countries who report regularly to the Commission on labour market developments in their country. The network occasionally arranges seminars and workshops on employment related issues.

